

Weak Quarter Margin pressure continues.

**CMP: INR 116**

**Rating: Accumulate**

**Target Price: INR 136**

**Stock Info**

BSE	535754
NSE	ORIENTCEM
Bloomberg	ORCMNT IN
Reuters	ORCE.BO
Sector	Cement
Face Value (INR)	1
Equity Capital (INR mn)	205
Mkt Cap (INR mn)	23867
52w H/L (INR)	186/ 97
Avg. Yearly Vol (in 000')	621

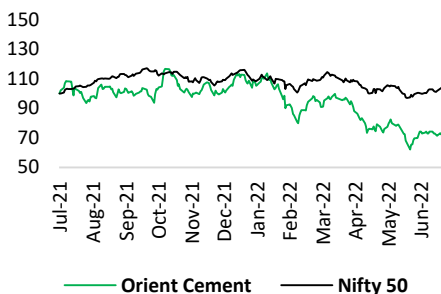
**Shareholding Pattern %**

(As on June, 2022)

Promoters	37.90
Public & Others	62.10

Stock Performance (%)	1m	3m	12m
Orient Cement	0.17	-15.74	-25.7
Nifty 50	8.93	0.33	8.85

**Orient Cement Vs Nifty 50**



Orient Cement reported weak set of numbers in Q1FY23 and were below our expectation on all fronts Net Revenue grew by 3.3% YoY, and declined by 11.2% QoQ to INR 7139 mn below our expectation of INR 8400 mn . Muted YoY topline growth and QoQ decline in top line was mainly due to decline in realization. Sales volume grew by 0.7% YoY, and 12.3 % QoQ to 1.37 mn tonnes below our expectation of 1.40 million tonnes. Volume was impacted amid lower demand in south and as per our belief company may have chosen to not accept business from segments where the recovery of fuel costs looked challenging. Realization/ton declined by 28% YoY and 44.7 QoQ to INR 3643/ton against our estimate of INR 6000/ton.

EBIDTA declined by 45% YoY and 33% QoQ to INR 1022 mn below our expectation of INR 2203 mn, EBIDTA margin contracted by 1263 bps YoY, and 475 bps QoQ to 14.3%. Higher operating cost and higher employee expense impacted EBIDTA margin. Operating cost increased by 24.1% YoY, however declined by 6.2% QoQ to INR 4991 mn . Higher fuel cost impacted the power and fuel cost, partially mitigated by improved efficiency and savings accrued from solar power plant. Power and fuel cost stood at 1612/ton as compared to 970/ton in Q1FY22. Packaging and forwarding cost also increased from 1310/ton in Q1FY22 to 1357/ton primarily impacted due to increase in diesel prices. EBIDTA /tonne declined by 45.5% YoY & and 40.6% QoQ to INR 746/tonne below our expectation to INR 1574/tonne.

PAT declined by 58.2% YoY and 48.9 QoQ to INR 374 Mn below our estimates of INR 840 mn.. PAT margin contracted by 770 bps YoY and 387 bps QoQ to 5.2% in Q1FY23. Poor operating performance and decline in other Income led to contraction in margin.

**Outlook and Valuations**

At a CMP of INR 116 stock is trading at an EV/EBIDTA multiple of 3.3(x) and 2.6(x) and to its F23E and FY24E Company delivered weak set of numbers in Q1FY23 amid lower realization, muted volume and high operating cost . Going ahead volume are expected to be muted in next quarter due to heavy monsoon in southern region and no new development. However from long term point of view we believe volume growth will be there with company focus on B2B segment. We expect cost to ease out with softening of fuel cost from past few weeks. And once demand scenario improves company will pass the cost to customer. Also as company has got Rajasthan mines and once green field expansion starts company capacity will increase and also lead to diversification in markets. We value the stock at 3.0 (x) EV/EBIDTA to its FY24E EBIDTA of INR 10,017 mn. to arrive at a target price of INR 136 and maintain accumulate rating in stock.

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## Q1FY23 Results and con call Highlights

INR mn	Q1FY23	Q1FY22	Q4FY22	YOY	QOQ
<b>Net Revenue</b>	<b>7,139</b>	<b>6,909</b>	<b>8,039</b>	<b>3.3%</b>	<b>-11.2%</b>
<b>Operating Costs</b>	<b>4,991</b>	<b>4,017</b>	<b>5,321</b>	<b>24.2%</b>	<b>-6.2%</b>
Employee cost	430	400	340	7.5%	26.5%
Other Expenses	696	630	845	10.5%	-17.6%
<b>EBITDA</b>	<b>1,022</b>	<b>1,862</b>	<b>1,533</b>	<b>-45.1%</b>	<b>-33.3%</b>
<i>EBITDA margin %</i>	<i>14.3%</i>	<i>27.0%</i>	<i>19.1%</i>	<i>-1263bps</i>	<i>-475bps</i>
Depreciation	363	353	366	2.8%	-0.8%
<b>EBIT</b>	<b>659</b>	<b>1,509</b>	<b>1,167</b>	<b>-56.3%</b>	<b>-43.5%</b>
Other Income	12	21	20	-42.9%	-40.0%
Finance cost	80	159	49	-49.7%	63.3%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>591</b>	<b>1,371</b>	<b>1,138</b>	<b>-56.9%</b>	<b>-48.1%</b>
Tax Expense	217	477	406	-54.5%	-46.6%
Effective tax rate %	36.7%	34.8%	35.7%	193bps	104bps
<b>PAT</b>	<b>374</b>	<b>894</b>	<b>732</b>	<b>-58.2%</b>	<b>-48.9%</b>
<i>PAT margin %</i>	<i>5.2%</i>	<i>12.9%</i>	<i>9.1%</i>	<i>-770bps</i>	<i>-387bps</i>
<b>EPS (Rs)</b>	<b>1.83</b>	<b>4.37</b>	<b>3.57</b>	<b>-58.1%</b>	<b>-48.7%</b>

## Con Call Highlights

- Rajasthan mines are restored to the company on terms as per company company will start procedure pf land acquisition. Once the capacity expansion comes up company will be able to diversify its business.
- Markets which company cater to did not support in terms of volume and demand due to which company could not pass on price hike which impacted margin.
- In South from demand prospective it has been a weak Quarter and due to heavy rains in July there has been soft volumes
- There is no fresh triggers in southern region with no new development coming up which has been a big dampner for the demand.
- In coming times company will focus on demand uptick and pass on increased cost to customer .
- With the reduction in fuel cost in past few weeks there will be easing of some cost pressure .
- Volume were impacted partly due to poor demand and partly due to company policy of not accept business from segments where the recovery of fuel costs looked challenging.
- Company total cost is higher by 20% YoY. Total cost /ton is higher by INR 743 out of which INR 643 is due to rise in fuel cost.
- Slowdown in B2C segment of the company has also been a factor of lower volumes.
- Company did push its premium products despite B2C volume impacted .
- Working capital impacted due to higher credit period in B2B segment compared to trade segment due to which company had to take wc loan of INR 160 cr. However project loan has come down to INR 259 cr.
- In west company has done a volume of 55% in south 36% and 9% in central.

## Financial Statement

## Income Statement

Y/E March (Rs Mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>24,218</b>	<b>23,241</b>	<b>27,254</b>	<b>33,880</b>	<b>43,551</b>
Change (%)	-4.0%	-4.0%	17.3%	24.3%	28.5%
Cost of Goods Sold	16,056	13,842	16,907	20,328	26,130
Employee costs	1,549	1,525	1,524	1,863	2,395
<b>Other expenses</b>	<b>2,784</b>	<b>2,366</b>	<b>2,912</b>	<b>3,727</b>	<b>5,008</b>
Total operating Expense	<b>20,389</b>	<b>17,733</b>	<b>21,343</b>	<b>25,918</b>	<b>33,534</b>
<b>EBITDA</b>	<b>3,829</b>	<b>5,508</b>	<b>5,911</b>	<b>7,962</b>	<b>10,017</b>
Other Income	177	183	96	136	174
Depreciation	1,409	1,419	1,452	1,266	1,302
Interest	1,223	936	514	182	182
<b>PBT</b>	<b>1,374</b>	<b>3,336</b>	<b>4,041</b>	<b>6,649</b>	<b>8,706</b>
Extra-ordinary	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>1,374</b>	<b>3,336</b>	<b>4,041</b>	<b>6,649</b>	<b>8,706</b>
Tax	508	1,193	1,408	2,317	3,034
Rate (%)	37.0%	35.8%	34.8%	34.8%	34.8%
<b>PAT</b>	<b>866</b>	<b>2,143</b>	<b>2,633</b>	<b>4,332</b>	<b>5,673</b>
Change (%)	81.3%	147.4%	22.9%	64.5%	30.9%

Source: Company, Arian Research

## Balance Sheet

Y/E March (Rs Mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>					
Share Capital	205	205	205	205	205
Reserves & Surplus	10,979	12,854	15,049	19,022	24,336
<b>Net Worth</b>	<b>11,184</b>	<b>13,059</b>	<b>15,254</b>	<b>19,227</b>	<b>24,541</b>
Long term debt	11354	7838	1519	1519	1519
Short term debt	3	141	1,637	1,647	1,647
<b>Total Debt</b>	<b>11,357</b>	<b>7,979</b>	<b>3,156</b>	<b>3,166</b>	<b>3,166</b>
Other Liabilities & Provisions	6457	7082	8086	6401	7471
<b>Capital Employed</b>	<b>28,998</b>	<b>28,120</b>	<b>26496</b>	<b>28794</b>	<b>35178</b>
<b>Application of Funds</b>					
Net Block	22,098	21,460	20,502	21,102	21,702
Deffered Tax & other liblity	0	0		0	0
Other Non-Current Assets	2,053	1,806	2,286	1,686	1,636
<b>Non Current Asset</b>	<b>24,151</b>	<b>23,266</b>	<b>22,788</b>	<b>22,788</b>	<b>23,338</b>
Investments	0	0	0	0	0
Debtors	1,618	1,102	1,273	1,606	2,065
Inventories	2,366	1,705	1,866	3,007	3,866
Cash & bank balance	360	362	438	640	912
Loans & advances & other CA	503	1,686	752	752	4,997
<b>Total current assets</b>	<b>4,847</b>	<b>4,855</b>	<b>3,708</b>	<b>6,006</b>	<b>11,840</b>
<b>Total Assets</b>	<b>28,998</b>	<b>28,120</b>	<b>26496</b>	<b>28794</b>	<b>35178</b>

## Financial Statement

## Cash Flow Statement

Y/E March (Rs Mn)	FY20	FY21	FY22	FY23E	FY24E
<b>PBT</b>	<b>1,374</b>	<b>3,336</b>	<b>4,041</b>	<b>6,649</b>	<b>8,706</b>
Depreciation	1,409	1,419	1,452	1,266	1,302
Interest & others	1,178	904	498	168	168
Cash flow before WC changes	3,860	5,568	5,952	4,683	2,977
<b>(Inc)/dec in working capital</b>	<b>-635</b>	<b>2,163</b>	<b>-55</b>	<b>-55</b>	<b>-55</b>
Operating CF after WC changes	3,225	7,731	5,897	4,628	2,922
Less: Taxes	-307	-590	-658	-2,317	-3,034
<b>Operating cash flow</b>	<b>2,918</b>	<b>7,141</b>	<b>5,239</b>	<b>2,312</b>	<b>-112</b>
(Inc)/dec in F.A + CWIP	-766	-507	-525	-600	-600
(Pur)/sale of investment	0	0	0	0	0
<b>Cash flow from investing</b>	<b>-732</b>	<b>-1,616</b>	<b>702</b>	<b>-568</b>	<b>-568</b>
<b>Free cash flow (FCF)</b>	<b>2,134</b>	<b>6,627</b>	<b>4,908</b>	<b>1,712</b>	<b>-712</b>
Loan raised/(repaid)	-600	-4,306	-4,910	-1,000	1,500
Equity raised	0	0	0	0	0
Interest & others	-1,206	-932	-465	-182	-182
Dividend	0	-212	-284	-284	-284
<b>Cash flow from financing activities</b>	<b>-2,059</b>	<b>-5,521</b>	<b>-5,854</b>	<b>-1,541</b>	<b>959</b>
<b>Net inc /(dec) in cash</b>	<b>126</b>	<b>4</b>	<b>87</b>	<b>202</b>	<b>279</b>
Opening balance of cash	220	346	351	438	640
Closing balance of cash	346	350	438	640	912

Source: Company, Aриhant Research

## Key Ratios

Y/E March (Rs Mn)	FY20	FY21	FY22	FY23E	FY42E
<b>Per share (Rs)</b>					
EPS	4.2	10.4	12.8	21.1	27.7
CEPS	11.1	17.4	19.9	27.3	34.0
BVPS	545.6	637.0	744.1	937.9	1197.1
<b>Valuation (x)</b>					
P/E	27.5	11.1	9.0	5.5	4.2
P/CEPS	8.6	5.5	4.8	3.5	2.8
P/BV	0.2	0.2	0.2	0.1	0.1
EV/EBITDA	9.1	5.7	4.5	3.3	2.6
<b>Return Ratios (%)</b>					
Gross Margin	33.7%	40.4%	38.0%	40.0%	40.0%
EBIDTA Margin	15.8%	23.7%	21.7%	23.5%	23.0%
PAT Margin	3.6%	9.2%	9.7%	12.8%	13.0%
ROE	7.7%	16.4%	17.3%	22.5%	23.1%
ROCE	10.7%	19.4%	24.2%	29.9%	31.5%
<b>Leverage Ratio (%)</b>					
Total D/E	1.0	0.6	0.2	0.2	0.1
<b>Turnover Ratios</b>					
Asset Turnover (x)	0.8	1.0	1.2	1.2	0.8
Inventory Days	45	40	54	54	45
Receivable Days	17	17	17	17	17
Payable days	29	31	24	24	29

Source: Company, Aриhant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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